The United States is committed to a policy of market-oriented agricultural production and liberalized agricultural trade.

A full production policy maximizes both the efficient use of U.S. agricultural resources and its farmers' capacity to meet domestic and foreign market needs.

An important facet of this policy is a strong effort to gain increased access to foreign markets in order to expand exports of U.S. agricultural products.

In furtherance of this policy, the United States will continue to work toward a freer international exchange of goods and services based on the principle of comparative advantage. The United States believes that a wider acceptance of this concept will help lead to higher levels of living for citizens of all nations by encouraging the most efficient use of the world's resources -- most importantly, its agricultural resources.

Expanded trade will also promote the expansion of international political security.

For many years U.S. agricultural policy looked inward toward domestic markets. The emphasis was on curtailing production as an income device in schemes whereby farmers were paid by government for holding land out of production. Production adjustments were made

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Presented by Kenneth E. Frick, Administrator, Agricultural Stabilization and Conservation Service, United States Department of Agriculture, Washington, D.C., before the Working Party on Agricultural Policies of the Committee for Agriculture, of the Organization for Economic Cooperation and Development, in Paris, France, on March 1, 1976.

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by farmers in response to government programs and government payments, rather than in response to market forces.

This policy was rooted in the belief that world market prices were too low and that the U.S. could not compete in foreign markets without subsidizing its major farm commodities.

Now, I know U.S. farmers can compete, and I am convinced that our farmers have a comparative advantage in the production and marketing of most of our major crops.

This concept has also been manifested in dramatic changes in agricultural policy in recent years. Earlier modifications came with the Agricultural Act of 1970, which initiated the cropland set-aside program. However, the most significant departures were embodied in the Agriculture and Consumer Protection Act of 1973.

Before discussing legislation in the 1970's, it is appropriate to briefly review past U.S. farm programs.

The Past

Until the mid-1800's, U.S. agricultural development followed traditions of the European farmer. Farming was carried out in a free-hold system with most farms operated by independent family units. From this system of small farmers U.S. agriculture moved gradually toward larger-scale agriculture, utilizing large machines and benefiting from economies of scale; although still basically a family farm system. So from an agriculture that produced at first essentially for domestic use, has come an agriculture that produces nearly one acre out of three for export markets.

Even though the larger part of U.S. agriculture -- livestock and poultry, fruits and vegetables, and several other crops -- has

remained free of government production controls and price support schemes, for about the past 40 years U.S. farm policy, as it applied to other commodities, principally grains, soybeans and cotton, was geared to a philosophy of cutback, curtailment and curbing of growth in the agricultural plant.

Centralized decision-making was justified in those earlier years by the urgency of the times. During the disastrous days of the Great Depression government price supports and production controls did improve economic conditions for farmers. The free market system failed to function appropriately and better alternatives could not be agreed upon.

Price supports and acreage controls were not needed during World War II and the Korean Conflict, since the demand for agricultural products was strong and market prices were generally above levels of support. And, government regulation of farm prices and production during most of the post World War II period was harmful economically, in that the incentive prices provided more production stimulation than the controls and disincentives could overcome. The result was excess production capacity being put to work, depressed farm income relative to nonfarm income, burdensome commodity surpluses, huge government purchases, storage and disposal problems, the idling of millions of acres of land, tremendous costs to taxpayers and political controversy.

One thing, however, remained unchanged. The United States was, and still is, dependent on a healthy agricultural economy.

While agriculture is not completely free of restrictions even today, the freedom principle has been persistent in U.S. farm policy in recent years. It has been confirmed in basic decisions by the

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Congress, the Administration and by farmers. The agricultural laws enacted in this decade have been based on the idea that farmers should be free to make their own production decisions.

The 1970 and 1973 laws moved the U.S. away from government interference that too often inhibited change and reduced the ability of farmers to make decisions in their own interest. With most of the former commodity program restrictions no longer in effect for major U.S. field crops, farmers are now free to make desirable production adjustments on their own.

The Agricultural Act of 1970

The Agricultural Act of 1970 was a rather sharp departure from the policies of past years. It was a market-oriented bill. It was designed to help American farmers expand their markets and increase their incomes through sales instead of government payments.

The old crop-by-crop planting limits were eliminated. Upon setting aside his share of the national land diversion requirement, a farmer was free to plant whatever crop he decided would give him the highest net return on his remaining acres. Exceptions to the substitution feature were the so-called quota crops -- tobacco, sugar, peanuts, extra-long-staple cotton and rice -- which operated under separate and permanent legislation.

Farmers were free to do the kind of farming they were best prepared to do, in terms of their ability, desire, land, equipment and other resources.

Under the old programs many producers were forced to maintain undesirable, inefficient and unrealistic cropping patterns in order to meet rigid program requirements.

In addition to promoting more efficient farm production, based on the principle of comparative advantage, the 1970 Act also permitted price supports to be set at levels which made major commodities more competitive in world markets and encouraged domestic use.

The Act still offered farmers a degree of price and income protection. It provided for direct payments to farmers and it continued to offer price support loans as both a credit tool and as price protection at harvest by giving farmers an alternative to selling into the harvest glut market.

It was a compromise bill which offered something for both sides of the traditional farm policy debate.

The Agriculture and Consumer Protection Act of 1973

The Agriculture and Consumer Protection Act of 1973 represents an even more significant departure from previous programs than the 1970 Act. The 1973 law:

-- Made a dramatic departure from the traditional, straight parity concept of the previous 40 years of programs by creating guaranteed "established," or "target," prices and deficiency payments for wheat, feed grains and upland cotton; setting "target" rates for 1974 and 1975 crops -- with an escalation clause tied to changes in costs of production and changes in production efficiency in setting 1976 and 1977 "target" prices (deficiency payments would be triggered if the season average price for a commodity fell below the specified "target" price);

-- Provided for disaster payments for prevented planting and abnormal yields, based on acreage allotments and production history;

-- Established a "neutral gear" for farm programs, enabling the government to effectively remove itself from the production planning of farmers. Participation is both voluntary and passive, so farmers

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need not sign up or report to government offices, unless production losses or low average market prices trigger disaster or deficiency payments -- or farmers choose to utilize the support loan;

-- Set a payment limitation of $20,000 for individual program participants, down from the $55,000 to $165,000 limitation range of the Agricultural Act of 1970;

-- And, allowed administrative determination of the level of price support loans in order to maintain the competitive position of U.S. farmers in world markets.

The 1973 Act also provided for a disaster reserve of grains to alleviate distress caused by a natural disaster, continued the acreage set-aside authority, eliminated marketing certificates under the wheat program, authorized a number of special studies and technical support programs, extended indemnity programs for pesticide-related losses to beekeepers and dairies, extended authority for payments on wool and mohair, established long-term contract authority for conservation practice cost-sharing, made certain revisions in the dairy support program, extended the Public Law 480 program provisions, continued rural development authority, and provided for certain revisions of the Food Stamp Act of 1964.

Experience Under Market-Oriented Farm Programs

The shift of U.S. farm policy to markets as the sole source of farm income is very real and is likely to endure for many reasons: (1) strong demand for agricultural products in the world due to increasing population and generally improved personal incomes; (2) improved standard of living goals in centrally-planned economies; (3) uncertainties of weather worldwide; (4) higher energy costs, which have slowed down

productivity growth in many nations; (5) floating currency exchange rates; (6) improvements in nations' economies; and (7) the wide acceptance of market-oriented farm programs, because of higher farm incomes and lower costs to taxpayers for those programs.

Significant developments for government and farmers under the past few years of experience under market-oriented farm legislation follow.

Government

Land idling: Since enactment of the 1973 law, the U.S. government has not utilized the acreage set-aside provision, and such action is not anticipated during the life of the four-year law. The government, then, has not interfered with the production of wheat or feed grains during the past two crop years, or for cotton since 1972. Rather, 60 million acres, previously idled under the 1970 act, have been released.

"Target" prices: No deficiency payments have been made under the "target" price authority since the Act has been in existence, because market prices have remained well above "targets." For 1976 the "target" price for corn will be raised from $1.38 to $1.57 per bushel; for cotton, from 38 cents to 43.20 cents per pound; for wheat, from $2.05 to $2.29 per bushel; for grain sorghum, from $1.31 to $1.49 per bushel; and for barley, from $1.13 to $1.28 per bushel.

Disaster payments: Disaster payments for conditions either preventing crop seeding or causing abnormally low yields -- due to drought, flood, or other natural disaster, or other conditions beyond the producer's control -- amounted to $555.4 million for 1974 crops. 1975 payments are expected to drop to just over half the 1974 total. These dollar outlays, along with relatively small outlays for other program payments to farmers, compare with past total payments to

farmers exceeding $3 billion for 1966 through 1971, nearly $4 billion in 1972, $2.6 billion in 1973. Today's level of farm program payments represents the lowest level since the mid-1950's.

Commodity Credit Corporation: Further savings to U.S. taxpayers have resulted from substantial reductions in commodity inventories held by the government-owned Commodity Credit Corporation (CCC) and in dollar volume of price support loans and purchases made by the CCC. For example, U.S. government ownership of corn, soybeans and wheat have been reduced to virtually zero. This compares with peak inventories of over 37.3 million metric tons (1.47 billion bu.) of corn in 1960, over 4.9 million tonnes (180.9 million bu.) of soybeans in 1969, and over 33.8 million tonnes (1.2 billion bu.) of wheat in 1961.

Outstanding CCC support loans to farmers for these three commodities as of Jan. 1, 1976 were: corn, 2.8 million tonnes (110.3 million bu.); soybeans, none (no loan was offered in 1975); and wheat, 856 thousand tonnes (31.5 million bu.). These levels, which are not expected to show substantial gains during 1976, compare with the following past peak levels of loan activity: corn, 23.5 million tonnes 926.6 million bu.) in 1963; soybeans, over 10 million tonnes (375.9 million bu.) in 1969; and wheat, over 19 million tonnes (706.3 million bu.) in 1969. Loan volume for the 1975 crops of corn and wheat represent only 1.9 percent and 1.5 percent, respectively, of the total crop. This compares with as much as 18.3 percent of the crop for corn and 47.5 percent for wheat in previous years. Relatively low loan rates in relation to market prices, higher CCC interest rates (raised in 1973 to more closely reflect the cost of borrowing money from the U.S. Treasury), and the fact that other credit sources are

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successfully being used, account for the reduction in government loan volume (See charts I-III).

As a result, the cost of operating the CCC in fiscal 1975 was at the lowest level in 20 years -- $709 million, compared with $1.1 billion in fiscal 1955 (See table 1).

Farm share of outlays: These reductions in expenditures from 1969 to the present also included a substantial reduction in U.S. Department of Agriculture direct payments to farmers over the period. And, higher market prices have boosted the average net farm income for the past three years to twice the average level of the late 1960's. The result is that U.S. farmers now receive only about 2 percent of their realized net income from direct government payments, compared with 27 percent in 1969.

Farmers

Crop shifts: Crop substitution provisions and the unchaining of farmers from allotments provided by both Farm Acts of the 1970's have made it possible for farmers to shift production to the crops that offer the greatest economic advantages in a given year. Major shifts of crops, which began following enactment of the 1970 act, have continued through 1976 production plans.

The old cropping limitations prevented crops from being grown in the lowest-cost production areas. For example, wheat production was encouraged in the Corn Belt. The previous program prevented many farmers from specializing, because it encouraged them to grow all of the crops for which they had acreage allotments.

As a result of the new freedom, farmers made sweeping regional shifts in cropping patterns. More corn shifted to the traditional Corn

Belt. More small grains were grown in the Great Plains and Pacific Northwest. More soybeans were planted in the Mid-South and Southeast. And, cotton production shifted westward in the Southern states to where it could be produced more efficiently, freeing up acreage for more profitable enterprises.

Many changes are acre-for-acre within small geographic areas and do not show up as major shifts in production on a regional basis.

Total production: In response to growing demand for their products, farmers have returned much of the previously program-idled land into the production of principal U.S. crops. Total acreage for these crops has climbed from about 118 million hectares (291 million acres) in 1969 to more than 133 million hectares (330 million acres) planned by farmers for 1976.

Farm income: Utilizing their resources to greater advantage to produce crops for growing markets for farm commodities, farmers set new records in both productivity and realized net income in this decade.

During the past three years, total U.S. realized net farm income averaged about $27.4 billion, more than twice the average level of the late 1960's (See chart IV). For the first time ever, farmers' average disposable personal income exceeded the average personal disposable income of the nonfarm population in 1973, and has averaged better than 90 percent of nonfarm income during the past three years. Disposable farm income had exceeded 70 percent of nonfarm income only once prior to 1969 (See chart V).

While U.S. farmers still do not earn incomes comparable with the remainder of the population, significant improvements in farm income have been achieved.

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Rural turnaround: Coupled with significant improvements in farm income and changes in cropping patterns is the turnaround in the rural demographic profile. The average age of U.S. farmers, which had long been thought too high and was going higher, is now moving downward -- reflecting a movement of younger persons into the business of farming. This development heralds the reversal of a trend to older age farm operators which peaked at an average of 52 years of age. At the start of this year, 20.8 percent of all farmers were under 35 years of age, compared with 14.6 percent in 1970.

Another trend which has virtually halted is the decline in the farm population in the U.S. Said to be the greatest migration of its kind in history, with nearly 30 million people having left U.S. farms since 1940, the mass exodus of people from farms is practically over. In the 1970 to 1974 period U.S. farm population declined an average of 143,000 annually, representing a rate of decline of only 1.2 percent. An average annual loss over a 4-year period of such low magnitude has not been observed since the end of World War II, when returning veterans and released defense workers briefly interrupted the long-term farm population decline.

Similarly, while the average size of farms has increased by nearly 20 hectares (47 acres) during the last decade -- reaching 157 hectares (389 acres) as of January 1976 -- the rate of decline in the number of farms has also slowed considerably. From 1974 to 1976, the number of U.S. farms dropped from 2,830,000 to 2,786,000 -- an annual decline of only 0.8 percent.

The decline in the number of farms was 22,000 for each of the past two years, compared with a decline of 55,000 for each of the

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years between 1969 and 1971. Some states actually gained in the number of farms during the past two years.

All of these demographic changes point to improvements in rural life and the income opportunities people see in farming.

U.S. farming not only appears to have rapidly become more a business, and less a way of life, it has in fact become a sterling example of successful free enterprise. Very few enterprises can boast of removing themselves so much, and so quickly, from a subsidized status as the American farmer has in this decade.

In Conclusion

The United States will continue to orient its farm and trade policies toward the free market concept. Recent evidence of this bipartisan movement was the enactment of less restrictive market-oriented rice legislation for 1976 and 1977 crops, putting this important commodity in phase with other "target" price program crops. The new rice law was patterned after the Agriculture and Consumer Protection Act of 1973.

The U.S. position relative to agriculture in the current round of trade negotiations is that agriculture negotiations should be linked with negotiations on non-agricultural trade. The U.S. point of view is that a market-oriented farm economy -- with freer competition, better access, and less interference with market forces -- is fully compatible with the legitimate protection of domestic farm interests.

The U.S. Trade Act of 1974 requires that "to the maximum extent feasible, the harmonization, reduction, and elimination of agricultural trade barriers and distortions shall be undertaken in conjunction with the harmonization, reduction, or elimination of industrial trade

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barriers and distortions."

As Secretary of Agriculture Earl Butz pointed out recently, of the $21.6 billion in U.S. fiscal 1975 agricultural exports, $15 billion worth faced trade restrictions. At the same time, of the $9.6 billion in agricultural imports, only $3 billion worth faced U.S. restrictions. The Secretary stated that it is time to examine all trade restrictions affecting agricultural products and that the United States is willing to lay these matters on the negotiating table.

The U.S. is quite dependent upon healthy agricultural trade. And, insofar as the American farmer is concerned, he must trade to stay in business. The U.S. grower today knows he must become a marketer first -- a trader -- and a producer second. Yet, U.S. farmers are only now beginning to explore the possibilities for expanding into direct foreign trade. In grain, for example, only 7 percent of U.S. foreign sales are handled by farmers -- through farmer organizations.

Faced with rapidly climbing costs of production and a sizeable increase in the price of farmland in the past few years, the U.S. farmer is urgently seeking means to improve marketing efficiency.

Recognition of the value of foreign trade to their personal farm businesses, has led to stronger evidence of a belief on the part of farmers each year that they favor the open market and that they should not go back to the old farm program system.

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Charts and tables attached.

CHART I

CORN

PERCENTAGE OF TOTAL U. S. PRODUCTION PLACED UNDER LOAN AND PURCHASED

CROP YEARS 1953-74

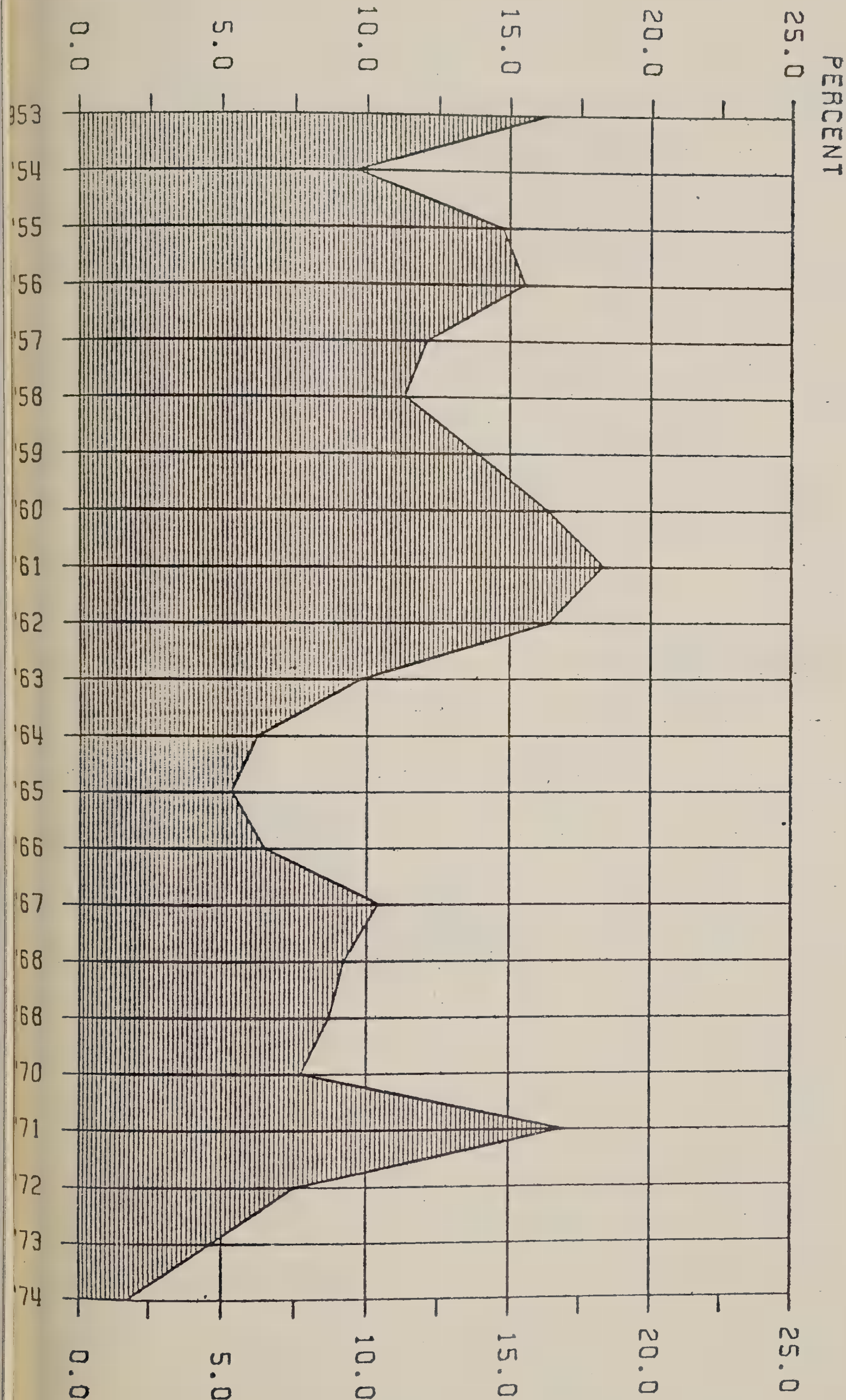
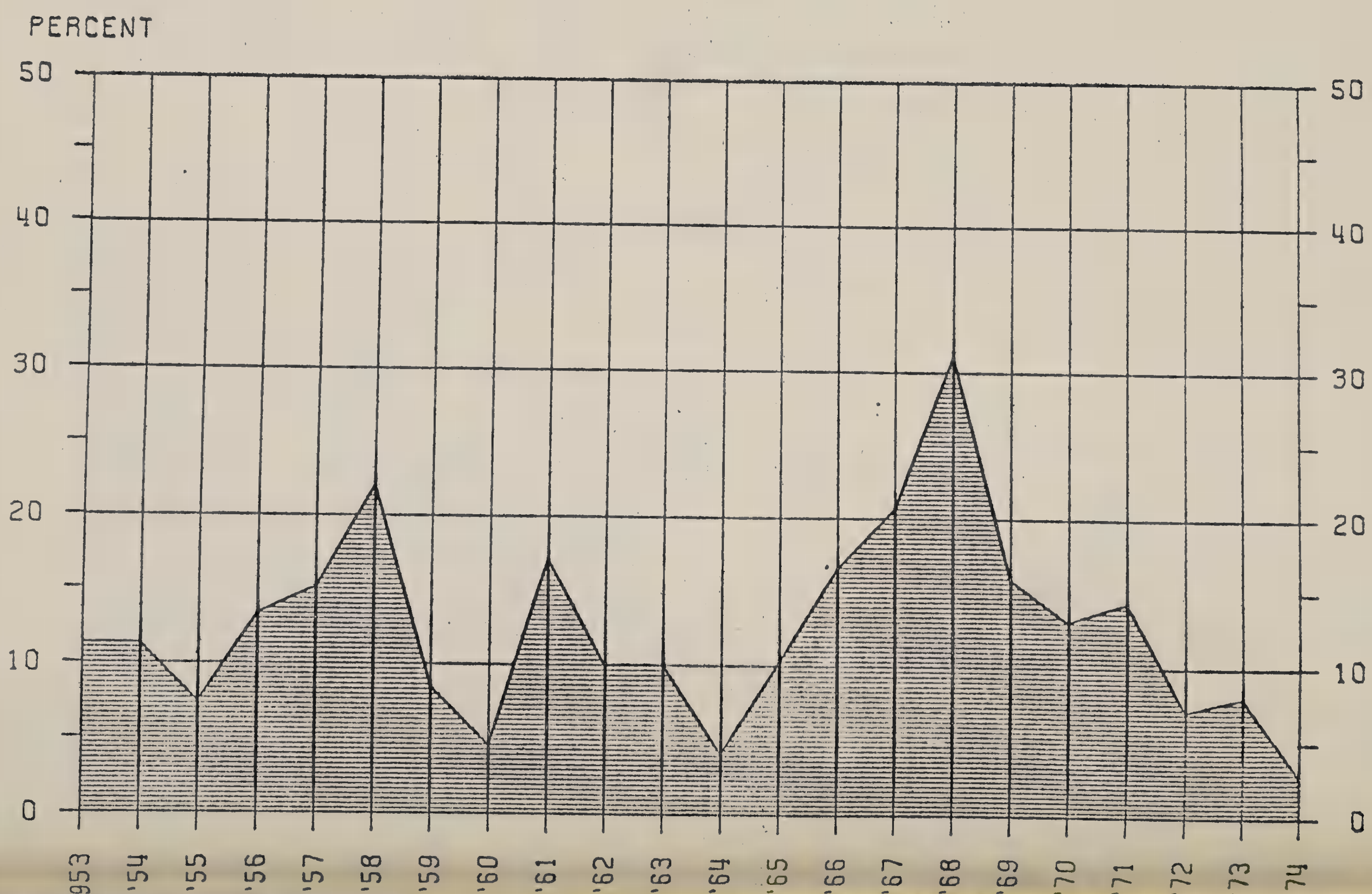


CHART II

SOYBEANS
PERCENTAGE OF TOTAL U. S. PRODUCTION PLACED UNDER LOAN AND PURCHASED
CROP YEARS 1953-74



WHEAT
PERCENTAGE OF TOTAL U. S. PRODUCTION PLACED UNDER PRICE SUPPORT
CROP YEARS 1953-74

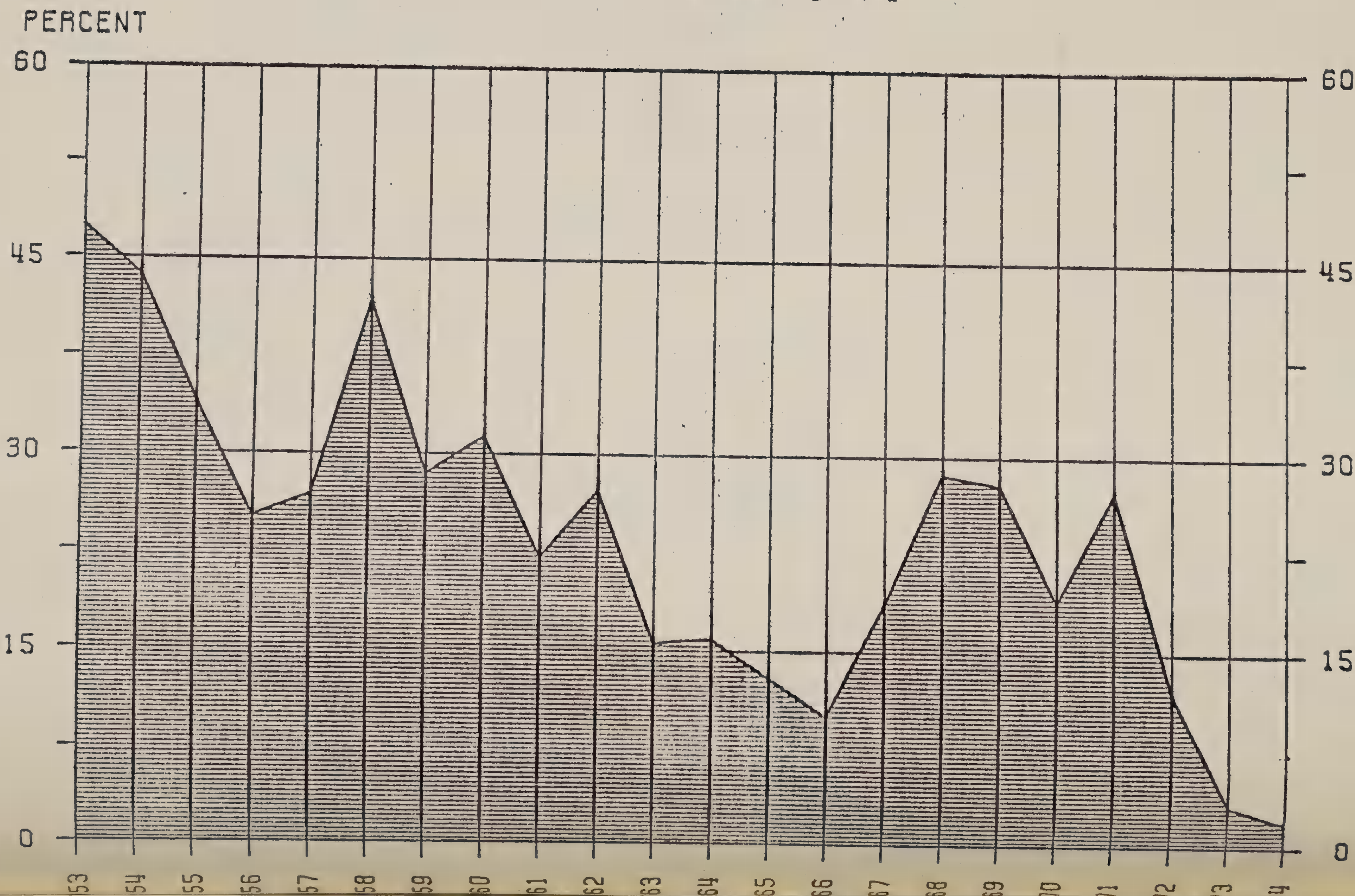


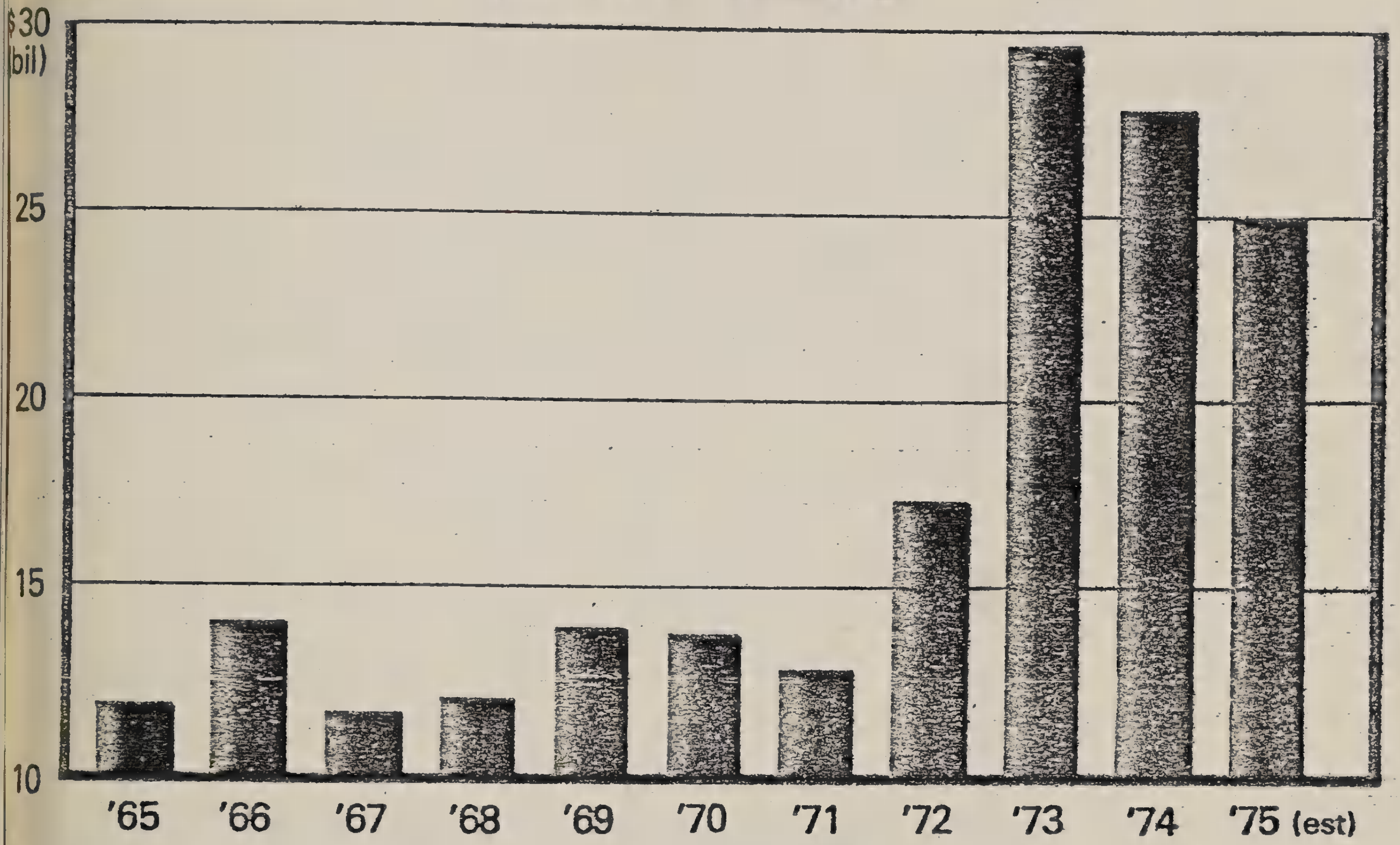
TABLE 1

REALIZED LOSSES
COMMODITY CREDIT CORPORATION
FISCAL YEAR 1948-75
(millions of dollars)

Fiscal Year	Realized Losses	Fiscal Year	Realized Losses
1948	125.4	1962	2,799.4
1949	254.8	1963	2,654.9
1950	249.2	1964	3,226.8
1951	345.6	1965	3,048.0
1952	67.4	1966	2,984.9
1953	181.6	1967	3,813.7
1954	65.4	1968	3,198.2
1955	1,119.3	1969	3,113.2
1956	1,413.7	1970	4,213.3
1957	1,812.0	1971	4,058.0
1958	1,647.6	1972	3,457.4
1959	1,410.0	1973	4,094.0
1960	1,884.5	1974	2,759.1
1961	2,081.8	1975	709.6

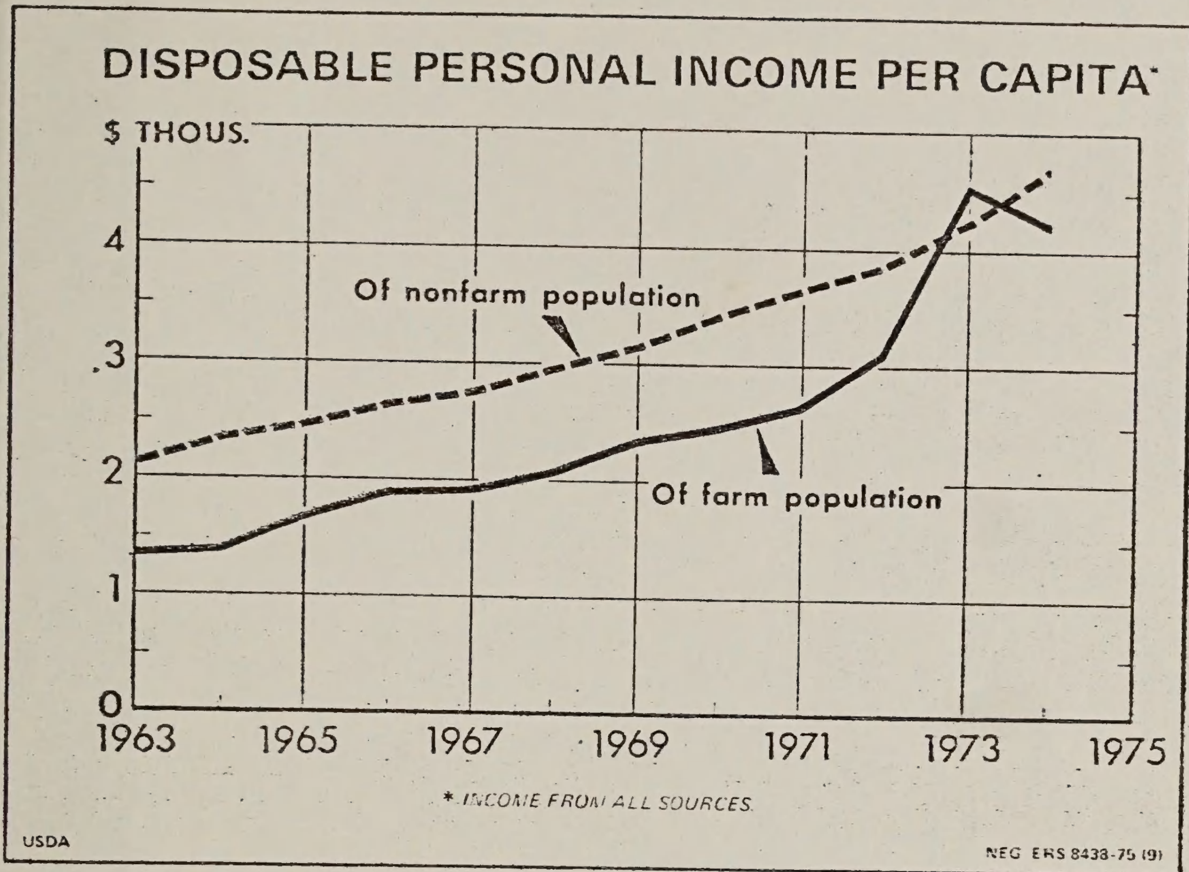
REALIZED NET FARM INCOME

(BILLIONS OF DOLLARS)



(Billions of dollars by year) 1965-11.8 1966-14.0 1967-11.6 1968-12.0 1969-13.9 1970-13.8 1971-12.8 1972-17.3 1973-29.5 1974-27.7 1975-25.0 (est.)

CHART V



Disposable personal income per capita, farm and nonfarm population, 1963-74

Year	Per capita income from all sources of the—			Farm as percentage of nonfarm
	Farm population	Nonfarm population	Total population	
	Dollars	*Dollars*	*Dollars*	*Percent*
1963	1,344	2,198	2,138	61.1
1964	1,383	2,348	2,283	58.9
1965	1,675	2,487	2,436	67.4
1966	1,873	2,650	2,604	70.7
1967	1,898	2,799	2,749	67.8
1968	2,067	2,993	2,945	67.1
1969	2,293	3,175	3,130	72.2
1970	2,460	3,422	3,376	71.9
1971	2,643	3,651	3,605	72.4
1972	3,133	3,877	3,843	80.8
1973	4,572	4,282	4,295	106.8
1974	4,258	4,640	4,624	91.8

Data from *Farm Income Statistics*, July 1975 (ERS).